Instructor Manual

Beatty, Essentials of Business Law, 7e, ©2022, 9780357634059; Chapter 2: Ethics and Corporate Social Responsibility

Table of Contents

Purpose and Perspective of the Chapter

The purpose of this chapter is to understand how to deal with various ethical challenges, strategies for analyzing ethical choices, and philosophical frameworks.

Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

- Transition Guide (provides information about what's new from edition to edition)
- Test Bank (contains assessment questions and problems)
- Solution and Answer Guide (offers textbook solutions and feedback)
- PowerPoint (provides text-based lectures and presentations)
- Guide to Teaching Online (provides technological and pedagogical considerations and resources for teaching online)
- MindTap Educator Guide (describes assets in the MindTap platform with a detailed breakdown of activities by chapter with seat time)

Chapter Objectives

The following objectives are addressed in this chapter:

1. Define *ethics*.
2. Describe the different theories of ethics.
3. Contrast the ethical implications of the shareholder theory with the stakeholder theory of management.
4. Define *corporate social responsibility*.
5. Identify how to remedy unethical behavior.
6. Explain the financial and non-financial costs of reported and unreported unethical behavior to a business.

[return to top]

Key Terms

Ethics: How people should behave

Ethics decision: Any choice about how a person should behave that is based on a sense of right and wrong

Life Principles: The rules by which you live your life

Deontological: From the Greek word for *obligation*; the duty to do the right thing, regardless of the result

Kant's categorical imperative: An act is only ethical if it would be acceptable for everyone to do the same thing

Life prospects: The circumstances into which we are born

Veil of ignorance: The rules for society that we would propose if we did not know how lucky we would be in life's lottery

Difference principle: Rawls's suggestion that society should reward behavior that provides the most benefit to the community as a whole

Moral universalism: A belief that some acts are always right or always wrong

Moral relativism: A belief that a decision may be right even if it is not in keeping with one's own ethics standards

Moral licensing: After doing something ethical, many people then have a tendency to act unethically

Optimism bias: A belief that the outcome of an event will be more positive than the evidence warrants

Kantian Evasion or palter: A truthful statement that is nonetheless misleading

Corporate social responsibility (CSR): An organization's obligation to contribute positively to the world around it

[return to top]

What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

- Updated data on the connection between wealth and happiness.
- New examples in sections on:
  - Rationalization.
  - Blind spots.
- New end of chapter question: case question #1.

[return to top]

Chapter Outline

I. Why Study Ethics (2-1)

a. **Ethics** is the study of how people should act.
b. An **ethics decision** is more specific. It is how a person should act but is based on a sense of right and wrong.
c. Law permits behavior that some feel wrong, or it may criminalize behavior that others believe right.
d. **Life Principles** are rules that you live your life by. They can include rules regarding:
   - Lying
   - Stealing
   - Cheating
   - Applying the same or different standards at work and at home

- Responsibility as a bystander when you see people doing wrong or being harmed

e. Regardless of what a person says, every ethics decision you make illustrates your Life Principles.

f. People who think about the right rules for living are less likely to do wrong.

g. Ethics in Business (2-1a)

- Who is owed responsibility in the corporate setting?
- Corporate manager's responsibility to:
  (1) The shareholders.
  (2) All company stakeholders.
- The law cuts across nearly every aspect of life, especially in the workplace.

h. Why Be Ethical? (2-1b)

- **Society as a Whole Benefits from Ethical Behavior**
  (1) Ethical behavior builds trust, and trust in turn is important in all relationships.
- **Ethical Behavior Makes People Happier**
  (1) A study states that good relationships with family and friends is the key to long-term happiness.
- **Ethical Behavior Provides Financial Benefits**
  (1) A company with a good reputation can pay employees less and charge customers more.
  (2) However, unethical behavior can cause financial harm.

II. Theories of Ethics (2-2)

a. Utilitarian Ethics (2-2a)

- The correct decision maximizes the greatest happiness and minimizes pain, thereby the net benefit is happiness.
- However, critics of utilitarianism point out the difficulty of measuring happiness or the utility of a correct decision.
  (1) A parent would value saving their child over a stranger.
  (2) One could argue torture of terror suspects is the "correct decision" because information gained could protect others at large.

b. Deontological Ethnics (2-2b)

- **Deontological** (*obligation* in Greek) ethics focuses on the reasons for a decision over the results of one.
- **Kant's categorical imperative** states that one should not engage in an action unless it would be acceptable if others did the same. Some examples:
  (1) Always telling the truth, even if this means disclosing past drug use on a job application, risking not getting hired.
  (2) Belief in human dignity, where we should not treat people as commodities.
- However, when looking at means and ends, the ends do matter.
  (1) Ex: A soldier killing an enemy soldier to prevent an invasion.

c. Rawlsian Justice (2-2c)

- This ethical system examines a person's circumstances into which we are born, or **life prospects**.
- Rawls asks what rules would we create for society if we did not know what circumstance we would be born in—this is the **veil of ignorance**.
  1. One rule from Rawl's thinking is the **difference principle**, meaning that society should reward behavior that provides the most benefit to the community as a whole.
     - (a) We still want a society where an incentive to work exists, so not everyone would receive equal pay.
     - (b) However, a doctor who cures cancer should receive more pay than a top baseball player.

d. Front Page Test (2-2d)

- If you are faced with an ethical question, ask how would you feel if your actions were placed on the front page of a newspaper or went viral on social media.

e. Moral Universalism and Relativism (2-2e)

- **Moral universalism** are ideas that are consistently right or wrong, regardless of context.
- **Moral relativists** are the opposite and may believe that the same action could be condoned in one instance, but not in another.
  1. Cultural moral relativism: Right and wrong is determined by the norms and practices of a society.
  2. Individual moral relativism: What is right for me might not be right for you.

f. Ethics Case: Up in Smoke (2-2f)

- A health insurance company refuses to hire smokers and will test everyone for nicotine use.
  1. This will reduce company expenses and increase productivity.
  2. However, is it fair to single out the smokers, many of whom may be suffering from an addiction to nicotine?

III. Ethics Traps (2-3)

a. Money (2-3a)

- Money is a double-edged sword; everyone needs it to avoid homelessness and abject poverty, and this would increase happiness. But after a certain level, money would have little or no effect on happiness.

b. Competition (2-3b)

- In one experiment, children choose to get fewer prizes if they received more than another child.

c. Rationalization (2-3c)

- Actions in line with a person's best interests are easily rationalized.
- **The Fudge Factor**
  1. The idea that a person will cheat just a little if they rationalize that it does not really count.
- **I Did It for Someone Else**

(1) The idea that wrongdoing is acceptable if done to benefit another.

- **The Slippery Slope**
  (1) The idea that once a person begins to rationalize unethical behavior, more extreme ethical behavior is more likely to occur.

d. We Cannot be Objective about Ourselves (2-3d)

- People cannot be objective when comparing themselves to others. For example, consider a student grading their own essay among others.

e. Moral Licensing (2-3e)

- **Moral licensing** is when a person who acts ethically once believes that they can act unethically another time.

f. Conflicts of Interest (2-3f)

- Ex. If a doctor receives gifts from a pharmaceutical, will this doctor be more or less likely to prescribe the medication the representative is promoting?

g. Conformity (2-3g)

- A belief that if others are committing wrongdoing, it is okay that I do so as well.

h. Ethics Case: Diamond in the Rough (2-3h)

- Accepting a gift from a client creates ethical issues. The recipient of the gift might decide to work more for that client at the expense of others.

i. Following Orders (2-3i)

- When a boss orders an employee to engage in wrongdoing, an employee is torn between standing up to the boss or submitting in order to save their job.

j. Euphemisms and Reframing (2-3j)

- Some ideas are repackaged in different terms, i.e., friendly fire vs. shooting your own soldiers, torture vs. enhanced interrogation.

k. Lost in a Crowd (2-3k)

- Some people are less likely to act ethically if they believe others will step in and make the ethical choice instead.

l. Ethics Case: Man Down (2-3l)

- This case illustrates the point above. Autrey is the only person who can rescue a man from a train compared to a crowd of commuters where no one tries to save a person that is pushed onto the tracks.

m. Short-Term Perspective (2-3m)

- Short-term profit making won out over the decision to spend more to make a vehicle safer.
- **Optimism bias** is a belief that the outcome of an event will be more positive than the evidence warrants.
  (1) Ex. Participants taking a math exam believed that they would score more correct answers when offered money for their predictions.

n. Ethics Case: Wobbly Platform (2-3n)

- Fear of losing employment can play a role in not vigorously opposing a CIO’s business idea.

o. Blind Spots (2-3o)

- Wishful thinking is illustrated when we tend to ignore obvious evidence that we would rather not know.

p. Avoiding Ethics Traps (2-3p)

- There are three ways to avoid ethical traps:
  1. Slow down.
  2. Do not trust your first instinct.
  3. Recall your Life Principles.

q. Lying: A Special Case (2-3q)

- Kant argued that lies violate the categorical imperative.
  1. What if lying is necessary to save a life? Ex. Lukas is running from a murderer; he hides in a neighbor's home. When the murderer arrives at the home, he asks if Lukas is there. The neighbor replies that he just saw Lukas an hour ago elsewhere. The neighbor's reply is a Kantian Evasion or palter.
  2. **Kantian Evasion** or **palter** is a truthful statement but otherwise misleading.

r. Ethics Case: Truth (?) in Borrowing (2-3r)

- Rob buys dentist's assets and signs them up to a long-term contract. In the contract, Rob improves the dentist's management and billing. Rob is challenged ethically when his current dentist can't receive a loan because of a decades-old bankruptcy. The dentist is willing to lie on the application, but Rob refuses to go along.

IV. Reacting to Unethical Behavior (2-4)

a. Loyalty (2-4a)

- Going along with a decision that you oppose vs. loyalty to your employer.

b. Exit (2-4b)

- Resigning when harassment in the office does not stop.

c. Voice (2-4c)

- Voicing opposition to a business decision. There are four points to consider:
  1. What are the main arguments you are trying to counter? What reasons and rationalizations need to be addressed?
  2. What is at stake for those you disagree or agree with?
  3. What can you leverage to influence a person you disagree with?
  4. What is your strongest persuasive response to reasons and rationalizations you need to confront?

d. Ethics Case: Truth or Consequences (2-4d)

- Promising everyone everything when it is not possible vs. being honest about limitations and deadlines for work.

V. Applying the Principle (2-5)

a. Personal Ethics in the Workplace (2-5a)

- Behavior in the workplace vs. behavior at home.

b. Ethics Case: Weird Wierdsma (2-5b)

- Breaking the law outside the workplace can creep into it as well. Once it becomes a habit, it is easier to rationalize in different contexts.

c. The Organization's Responsibility to Society (2-5c)

- If there is harm to society by a product, who is responsible?

d. Ethics Case: Breathing the Fumes (2-5d)

- Government report criticizing the danger of certain airborne chemicals vs. a chemical industry's lobby opposing the report's publication.

e. The Organization's Responsibility to Its Employees (2-5e)

- Doing what is best for the employees vs. the economic losses it can incur.

f. Ethics Case: The Storm after the Storm (2-5f)

- A business faces an ethical challenge when a storm destroys a U.S.-based factory.
    1. Outsourcing the factory will be more profitable, but the local community would lose their jobs.

g. The Organization's Responsibility to Its Customers (2-5g)

- Putting customers first even when it costs the company money.

h. Ethics Case: Mickey Weighs In (2-5h)

- Disney decides to stop supporting ads for sugared cereals for kids and loses revenue but receives support from parents who want their kids to eat more healthy foods.

i. The Organization's Responsibility to Overseas Workers (2-5i)

- Is it ethical for a company to have sweatshops overseas where workers are treated poorly?

j. Ethics Case: A Worm in the Apple (2-5j)

- What can companies do to improve sweatshop conditions?
    1. Code of conduct and audits.
    2. Auditors are more like partners to solve a problem than policing workplaces.
    3. Challenge of improving workplaces when a company profits from less overtime restrictions.

k. Corporate Social Responsibility (2-5k)

- **Corporate social responsibility (CSR)** is an organization's obligation to contribute positively to the world around it.

l. Ethics Case: The Beauty of a Well-Fed Child (2-5l)

- Business sells a product to customers that includes a gift. The gift includes a donation the company makes to provide school-aged children with meals.

[return to top]

Discussion Questions

You can assign these questions several ways: in a discussion forum in your LMS, as whole-class discussions in person, or as a partner or group activity in class.

1. Discussion: Kant, lying, and ethics. ([**Theories of Ethics (2-2)**]
    a. Writing prompt asking students to recall Kant's murderer fact pattern. Assume that the neighbor never saw Lukas elsewhere. Would telling a lie outweigh the threat to life that the truth would cause?
        i. Answer: Here we have dueling interests, honesty vs. the threat to human life. Which interest is best for society? Would lying in this instance be completely justified? Would we rather have a society where everyone obeys Kant's categorical imperative at the cost of Lukas' life?

2. Discussion: Keeping a job vs. opposing unethical decisions. ([**Theories of Ethics (2-2)**]
    a. Examine the following fact pattern: A father is taking care of his ill son. The son's condition can be cured, but the father does not have money to buy the medicine. What should the father do? He could break into the hospital and steal the medicine or watch his son die.
        i. What are the conflicting interests here? Is there any way to reconcile them?
        ii. Answer: Varying answers. Here we have a duty owed to society to follow the law in conflict with the duty a parent owes to his own son. What other options does the father have here? He could try to raise money; he could beg for money from strangers. He could decide to steal the medicine anyway, administer it to his son, and then turn himself in to authorities.

[return to top]

Additional Activities and Assignments

1. **MindTap:** Why Do Ethics Matter to Me?
    a. Consider your perspective on key legal concepts.
2. **MindTap:** Reading: Ethics and Corporate Social Responsibility
    a. Read the chapter here. Highlight and make notes to help you study for an exam.
3. **MindTap:** Learn It: Theories of Ethics
    a. Get familiar with one of the key concepts from the chapter.
4. **MindTap:** Learn It: Corporate social responsibility
    a. Get familiar with one of the key concepts from the chapter.
5. **MindTap:** Learn It: Costs of ethical and unethical behavior
    a. Get familiar with one of the key concepts from the chapter.
6. **MindTap:** Check Your Understanding: Ethics
    a. Test your understanding of the facts, themes, and concepts covered in the chapter.
7. **MindTap:** Case Problem Analysis: Business Ethics
    a. Read a short scenario case, analyze fact patterns, and answer questions to gain a deeper level of critical analysis and understanding.
8. **MindTap:** Brief Hypotheticals: Ethics
    a. Assess your ability to apply legal concepts to hypothetical scenarios.
9. **Research Project:**
    a. Ask students for their views on each ethical theory.

b. Have students apply ethical theories to hypotheticals.

[return to top]

Additional Resources

Cengage Video Resource

- MindTap Quick Lesson Video:
    - Ethical Reasoning: https://geyser.cl-cms.com/nav-files.xqy/geyser/buslaw/assets/blaw_clarkson_cla/video/ethical_reasoning/

[return to top]